

## Message Text

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ACTION IO-13

INFO OCT-01 AGRE-00 USIA-06 AID-05 EB-07 AF-08 ARA-06

EA-07 EUR-12 NEA-10 COME-00 ISO-00 TRSE-00 L-03

FRB-03 OMB-01 ITC-01 SP-02 CIAE-00 INR-07 LAB-04

NSAE-00 OIC-02 SIL-01 STR-04 CIEP-01 CEA-01 IOE-00

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P 140905Z OCT 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 0543

USMISSION GENEVA

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FODAG

E.O. 11652: N/A

TAGS: UNCTAD, FAO, OCON

SUBJECT: FAO AND UNCTAD MEETINGS ON JUTE

1. FAO HAS GIVEN EMBASSY AN ADVANCE COPY OF UNCTAD/FAO DOCUMENT TD/B/IPC/JUTE/L2 "CONSIDERATION OF INTERNATIONAL MEASURES ON JUTE, KENAF AND ALLIED FIBERS WHICH WILL BE CONSIDERED BY THE UNCTAD PREPARATORY MEETING ON JUTE ON OCTOBER 25 IN GENEVA. EMBASSY HAS MAILED COPY TO CHARLES ANGEVINE, EB/ORF/FTD, ON OCTOBER 8.

2. AS MIGHT BE EXPECTED, THE UNCTAD DOCUMENT PLACES THE ESTABLISHMENT OF INTERNATIONAL BUFFER STOCKS OF JUTE AND JUTE PRODUCTS AS THE CENTRAL FEATURE OF A POSSIBLE INTERNATIONAL AGREEMENT FOR JUTE AND KENAF. THE PAPER ADMITS THAT THERE ARE PROBLEMS OF GRADES OF JUTE TO BE HELD, PROPORTION OF JUTE TO JUTE PRODUCTS, LOCATION OF STORAGE POINTS AND QUALITY, BUT BELIEVES STUDY AND GOOD MANAGEMENT COULD MEET THESE PROBLEMS.

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LEMS. THE BUFFER STOCKS' GOAL WOULD BE TO STABILIZE THE

SUPPLY AND MARKET PRICE OF JUTE, AND IT IS ARGUED THAT THE PRICE GOAL AND RANGE WOULD BE PRIMARILY CALCULATED ON THE BASIS OF THE PRICE OF SYNTHETIC COMPETITION. FINALLY, THE BUFFER STOCK WOULD BE BACKED UP BY PRODUCTION PLANNING AND EXPORT QUOTAS. IN THE CASE OF JUTE WITH TWO OR THREE PRINCIPAL PRODUCERS, THE PROBLEMS INHERENT IN PRODUCTION PLANNING AND QUOTAS ARE MUCH SIMPLIFIED. THE PAPER FORESEES INVESTMENT IN IMPROVED PRODUCTION OF JUTE AND JUTE PRODUCTS AS WELL AS ASSISTANCE TO SHIFTING INEFFICIENT PRODUCTION TO OTHER COMMODITIES. FINALLY, THE PAPER FORESEES THE POSSIBLE NEED TO ASSIST JUTE PRODUCERS WHEN PRICES ARE AT THE LOWER END OF THE BUFFER STOCK STABILIZATION PRICE WHICH IS EXPECTED TO BE BELOW THE COST OF JUTE PRODUCTION.

3. SPECIFICALLY, THE PAPER DISCUSSES A BUFFER STOCK OF JUTE AND JUTE PRODUCTS IN THE RANGE OF 500,000 TONS WITH A RATIO OF 80/20 JUTE TO JUTE PRODUCTS. THE PAPER IS MORE VAGUE ON A STABILIZATION PRICE, BUT SEEMS TO USE THE FAO INTERGOVERNMENTAL GROUP ON JUTE'S INDIVATIVE PRICE OF ENGLISH POUNDS 155 BUT STATED IN DOLLARS AT ABOUT \$280 WITH A 7.5 PERCENT RANGE FROM THIS MID-POINT. THIS EQUATES TO A CAPITAL COST FOR THE BUFFER STOCK OF 136-182 MILLION DOLLARS. NEEDED INVESTMENT IN JUTE YIELD IMPROVEMENT IS SET AT \$45 MILLION AND INDUSTRIAL PRODUCTION IMPROVEMENT COSTS ARE ESTIMATED AT \$90 MILLION. CARRYING COSTS OF BUFFER STOCKS ARE ESTIMATED AT ABOUT 10 PERCENT OF CAPITAL COSTS WITH A STORAGE LIFE OF TWO YEARS.

4. COMMENT: THE LOGIC OF UNCTAD'S PROPOSAL IS FINE IN THAT THE BUFFER STOCK PLAN PROBABLY WOULD WORK IF REPEAT IF THE STABILIZATION PRICE IS LOW ENOUGH AND ALL THE SURROUNDING SUPPORT PLANS WORK. HOWEVER, IF ALL THE SURROUNDING PLANS ARE PUT IN EFFECT, THEN THE BUFFER STOCK IS A 150 MILLION DOLLAR EXPENSE WHICH THE EXISTING FAO IG ON JUTE INDIVATIVE PRICE WOULD HANDLE WITHOUT THE COST OF INTERNATIONALLY HELD BUFFER STOCKS. VOLPE

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